

## Message Text

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ACTION SS-25

INFO OCT-01 ISO-00 SSO-00 /026 W

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R 291458Z MAR 77

FM AMEMBASSY CAIRO

TO SECSTATE WASHDC 3315

INFO AMCONSUL ALEXANDRIA

AMEMBASSY DAMASCUS

AMEMBASSY JIDDA

AMEMBASSY KUWAIT

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EXDIS

NOFORN

E.O. 11652: GDS

TAGS: EINV, PFOR, EG

SUBJECT: INVESTMENT IN EGYPT: FORD MOTOR AND THE BOYCOTT

REF: (A) CAIRO 5281, (B) CAIRO 4468

1. FORD REP OUROUSSOFF HAS PROVIDED FOLLOWING INFORMATION ON STATUS OF COMPANY'S INVESTMENT PROPOSAL BASED ON HIS CONVERSATIONS WITH ABDEL MEGUID OF INVESTMENT AUTHORITY. HE INDICATED THAT THIS INFORMATION STILL BEING FAIRLY CLOSELY HELD WITHIN EGYPT.

2. FORD PROJECT HAS BEEN OFFICIALLY APPROVED "IN PRINCIPLE", DEPENDING UPON RESOLUTION OF A NUMBER OF REMAINING ISSUES. EGYPTIANS INTEND TO ANNOUNCE APPROVAL DURING SADAT VISIT, BUT APPARENTLY HAVE NOT YET DECIDED HOW THIS WILL BE DONE IN VIEW OF THEIR SENSITIVITY ON BOYCOTT ASPECTS. IN ANY EVENT, BOTH SIDES AGREED THAT UP TO SIX MORE MONTHS MAY BE REQUIRED BEFORE PROJECT CAN ACTUALLY GET UNDERWAY.

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3. EGYPTIANS HAVE FORMALLY ADVISED FORD THAT THEY WILL NOT BE ABLE TO UNDERTAKE A COMMITMENT TO PROVIDE REQUIRED FOREIGN EXCHANGE TO COVER COSTS OF STARTUP AND OPERATION. TO OFFSET THIS SIGNIFICANT SHORTFALL, FORD HAS PROPOSED THAT IT WILL SELL A PORTION OF THE PRODUCTION DOMESTICALLY FOR HARD CURRENCY. EGYPTIANS EVIDENTLY SUGGESTED THIS PROCEDURE, INDICATING THAT

NASCAR IS ALREADY MARKETING A SIGNIFICANT PROPORTION OF ITS PRODUCTION IN THIS MANNER. FORD WILL NEED TO STUDY THIS QUESTION IN SOME DETAIL, SINCE FOREIGN EXCHANGE COSTS ARE A MAJOR FACTOR IN INITIAL PROPOSAL (REF B).

4. SECOND MAJOR CONCESSION BY FORD IS ACCEPTANCE OF EGYPTIAN REQUIREMENT THAT MARKETING RIGHTS FOR FORD PRODUCTS THROUGHOUT MIDDLE EAST BE GIVEN TO EGYPTIAN COMPANY. FORD HAS INDICATED IT IS WILLING TO INVESTIGATE MODALITIES FOR FORMING WHOLLY-OWNED MARKETING COMPANY WHICH WOULD USE FEES IT COLLECTED FOR ROLE IN SELLING PRODUCTS FOR PURPOSES OF PAYING EGYPTIAN TAXES. PRELIMINARY ESTIMATES ARE THAT \$3-4 MILLION PER YEAR WOULD ACCRUE TO EGYPT UNDER THIS SYSTEM, AND THIS IS EVIDENTLY ACCEPTABLE TO GOE.

5. COMPANY HAS ALSO UNDERTAKEN STUDY OF POSSIBILITIES OF PURCHASING SPARE PARTS FROM EGYPTIAN FOUNDRIES FOR USE OUTSIDE EGYPT, TO VALUE OF ABOUT \$10 MILLION PER YEAR PROVIDING FURTHER INCENTIVE FOR EGYPTIAN APPROVAL.

6. OUROUSOFF INDICATED THAT ONE STICKING POINT (IN TERMS OF EGYPTIAN REACTION) MAY BE RELATED TO CLAUSE IN NEW PROPOSAL WHICH INDICATES THAT ONCE FINAL AGREEMENT IS REACHED, EGYPT WILL THEN ACT TO HAVE FORD REMOVED FROM ARAB BOYCOTT LIST SO THAT NEGOTIATIONS FOR EXPORT SALES AND DEALERSHIPS IN OTHER ARAB COUNTRIES CAN BE CARRIED OUT IN AN OPEN BUSINESS CLIMATE.

7. FORD BELIEVES THAT IT HAS COME A LONG WAY TOWARD MEETING  
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EGYPTIAN REQUIREMENTS FOR PROJECT. OUROUSOFF RECOGNIZES THAT A NUMBER OF MAJOR HURDLES, IN ADDITION TO THOSE MENTIONED ABOVE, MAY REMAIN, BUT REPORTS THAT COMPANY IS THUS FAR QUITE SATISFIED WITH RECENT MOVES. ON BASIS OTHER CONVERSATIONS WITH MINECON EL SAYEH AND INVESTMENT AUTHORITY VICE CHAIRMAN ABDEL MEGUID (REF A) WE HAVE IMPRESSION THAT ALTHOUGH SOME CONFUSION MAY STILL EXIST AT WORKING LEVEL WITH RESPECT TO EGYPT'S ROLE IN GETTING FORD REMOVED FROM BOYCOTT, GOE WILL CARRY OUT ITS COMMITMENT IN THIS REGARD AND WILL BE PREPARED TO UNDERTAKE THIS CRUCIAL ROLE IF OTHER ASPECTS OF THE PROJECT CAN BE AGREED UPON.

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## Message Attributes

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**Review Markings:**  
Margaret P. Grafeld  
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